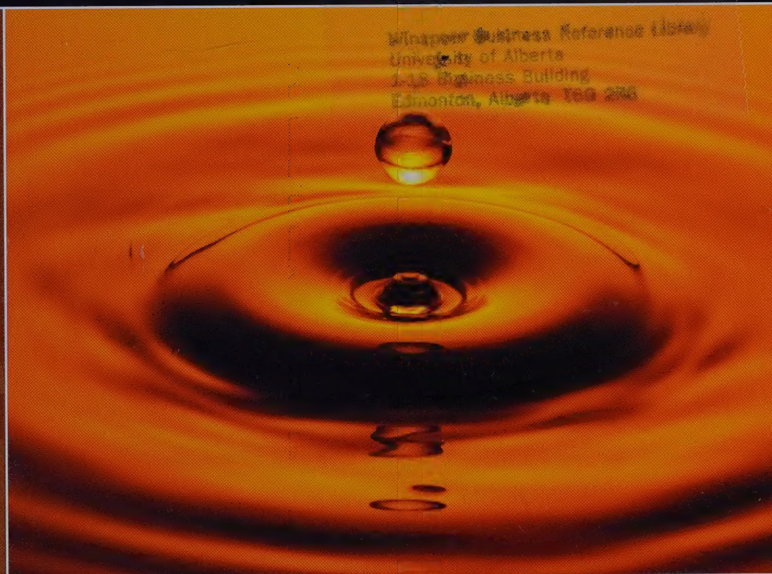
STERLING RESOURCES LTD.

SLG



2002 ANNUAL REPORT

Company Profile

Sterling Resources Ltd. is a Calgary, Canada based energy company actively engaged in the exploration and development of crude oil and natural gas in selected areas of the world. The Company's strategy for achieving growth is to source and initiate international projects with the potential for larger, lower-cost reserves. High initial working interests are taken where possible, and financial exposure and risk are managed by obtaining industry participations. The Company currently has landholdings in four countries, the United Kingdom onshore, Romania onshore and offshore, Denmark onshore and France onshore. The major focus areas, the United Kingdom and Romania, both have established hydrocarbon basins, extensive infrastructure and excellent contractual and fiscal terms. The common shares of Sterling Resources Ltd. trade on the TSX Venture Exchange under the symbol SLG.

Annual Meeting

An Annual General and Special Meeting of the Shareholders of Sterling Resources Ltd. will be held on Tuesday, June 10, 2003 at 10:00 a.m. (Calgary time) in the President's Room of the Calgary Petroleum Club, 319 Fifth Avenue S.W., Calgary, Alberta, Canada. Shareholders who are unable to attend the Meeting are requested to complete and return the Instrument of Proxy to Computershare Trust Company of Canada at their earliest convenience.

Contents

Message to Shareholders

During the year 2002, Sterling's efforts concentrated on bringing several of the prospects in its portfolio to the drilling stage. The first of these was drilled last summer and at least four wells are planned to be drilled in 2003.

Sterling's activities are presently focused on three basins in the United Kingdom onshore and in Romania where it holds interests both onshore and offshore.

In the UK onshore the first exploratory well was drilled in 2002 and wells are planned for 2003 in each of the three basins, the Wessex, Weald and Cleveland.

The West Compton #1 well, located at the western end of the Wessex High, was the first to test the trend of prospects that lie up dip from the giant Wytch Farm field, located in the eastern end of the Wessex Basin. The well found a valid structure but it was water bearing. Consistent with its strategy, Sterling farmed out half of its 45% interest in this well in return for the farmee paying Sterling's 45% of the well cost. Plans for further activity on the licenses are now under consideration but will likely be on the eastern portion of the licenses, nearer existing production.

In the Weald Basin, planning approval was obtained shortly after year-end to drill the Avington well on license PEDL 070, where Sterling holds a 16.67% working interest. This well will appraise a large anticline located some four kilometres from the producing Stockbridge oilfield. The Operator of the Stockbridge field is the Operator and a 50% working interest owner in this license. The Operator's estimate is that the well will be drilled mid year. Given its close proximity to the Stockbridge field, a discovery could be put on production quickly.

Drilling locations for two prospects on license PEDL 068 in the gas-prone Cleveland Basin have been chosen and applications were made subsequent to year-end for planning approval. Drilling of at least one prospect is planned for 2003 subject to receiving approval.

Activities on the Romanian properties during the year greatly enhanced the potential of Sterling's holdings.

Onshore Romania, a surface geochemical survey was completed over the two focus areas previously identified from existing well and seismic data. The results showed several positive geochemical anomalies, which match data collected over two of the neighboring producing fields. The anomalies also correlate well with subsurface features, which have been identified by a full study of all available geological and geophysical data over the area. Based on these positive results, an infill seismic program will be carried out to firm up drilling locations. At least one well is planned for 2003.

Offshore Romania, the additional geological and geophysical program around the Gasca prospect located in the northern Pelican Block, has resulted in a multi-play prospect with three separate structures. On the southern Midia Block, studies have shown the feasibility of a development option under which Sterling's Doina gas discovery and Doina Sister prospect would be combined with nearby existing and planned gas production.

Sterling continued to manage its portfolio actively by adding exploration licenses and relinquishing license areas that did not meet the risk reward threshold of the Company.

Message to Shareholders

Sterling added two new exploration licenses to its portfolio in 2002. In the UK 10th Round of Onshore Licensing, Sterling acquired a 33.3% operated interest in PEDL 110, which lies adjacent to licenses PEDL 069 and PEDL 070. In August 2002, Sterling and its partners were formally awarded an exploration license in the Aquitaine Basin of southwest France. Sterling holds a 42.85% working interest in the 294,000-acre St. Laurent license located 20 kilometres northwest of the giant Lacq gasfield. The license contains a heavy oil discovery and two potentially significant leads in the Jurassic and Triassic formations.

Technical evaluations on the remainder of Sterling's portfolio produced positive results with the exception of UK license EXL 295 and Denmark license 2/01, which indicated lower potential and subsequently were relinquished.

Corporately, Sterling completed a small private placement of 1,694,000 units, each unit consisting of a common share and a common share purchase warrant for a consideration of $847,000. Additional equity financing and industry farmouts are planned to provide funding for 2003 expenditures. In October, Sterling welcomed Mr. Robert Cook to its Board of Directors. Mr. Cook holds a senior investment position with ARC Financial and replaced Mr. Philip Swift as ARC's representative on the Board. The Board wishes to express its sincere appreciation to Mr. Swift for his many valuable contributions to Sterling during his tenure.

The year 2003 will be active with at least four wells to be drilled. Success will have a most positive impact on the value of the Company. The Board wishes to thank the shareholders for their continued interest, patience and support.

On behalf of the Board of Directors

Robert G. Welty
Chairman & Chief Executive Officer

Stewart G. Gibson
President & Chief Operating Officer

March 6, 2003

Operations Review

During 2002, technical reviews of the Company's asset portfolio continued and several of the license areas have matured to operational status. The main activity for the immediate future will be a multi-well drilling programme based on the two current main focus areas, onshore UK and Romania.

United Kingdom Onshore

The Company holds license interests in three geological basins, all of which have current hydrocarbon production. The licenses cover 591,073 gross acres (258,638 net acres). The UK has an excellent fiscal regime and a well-developed infrastructure for marketing of products.

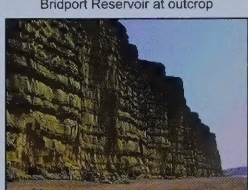
Drilling is planned for wells in each of these basins during 2003. Two of the planned wells are targeting oil prospects and two are targeting gas prospects. All four prospects have older wells present with demonstrated presence of hydrocarbons.

In the Wessex Basin, Sterling holds an interest in three licenses which trend east/west along the Central Wessex High, a stable geological feature which contains the producing Wytch Farm and Wareham fields at its eastern end. The Wessex High rises to the west, placing several mapped prospects and leads within the Sterling acreage up-dip from existing production. The producing reservoirs are the Triassic Sherwood and Jurassic Bridport sandstones and Frome limestone. All have produced significant volumes in the Wytch Farm area, which will eventually recover reserves in excess of 460 million barrels of oil.

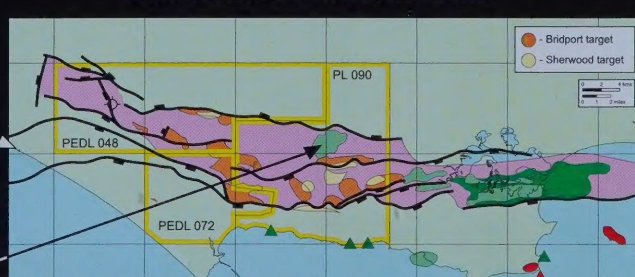
During 2002, the joint venture drilled the West Compton commitment well in the western part of the Wessex High on license PEDL 048. The well was drilled to a measured depth of 2,023 metres and found the structure with good quality Sherwood sandstone, overlain by an effective seal (Mercia Mudstone). Unfortunately the reservoir was water bearing and the well was abandoned. Sterling had farmed out half of its 45% interest in return for the farmee paying Sterling's 45% of the well costs. The farmee also has

Wessex Basin

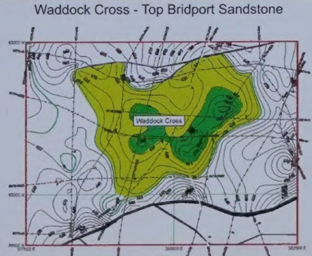
Bridport Reservoir at outcrop



Wessex High exploration play producing fields
PEDL048, PEDL072 & PL090 Prospects and Leads



Waddock Cross - Top Bridport Sandstone



Waddock Cross Bridport reservoir prospect

an option to farm into PEDL 072 and PL 090 by funding a portion of the next well drilled on either of these two licenses.

Given the lack of hydrocarbon in this westerly location, the regional modelling for the migration of hydrocarbon is being reviewed to select the next Sherwood drilling target.

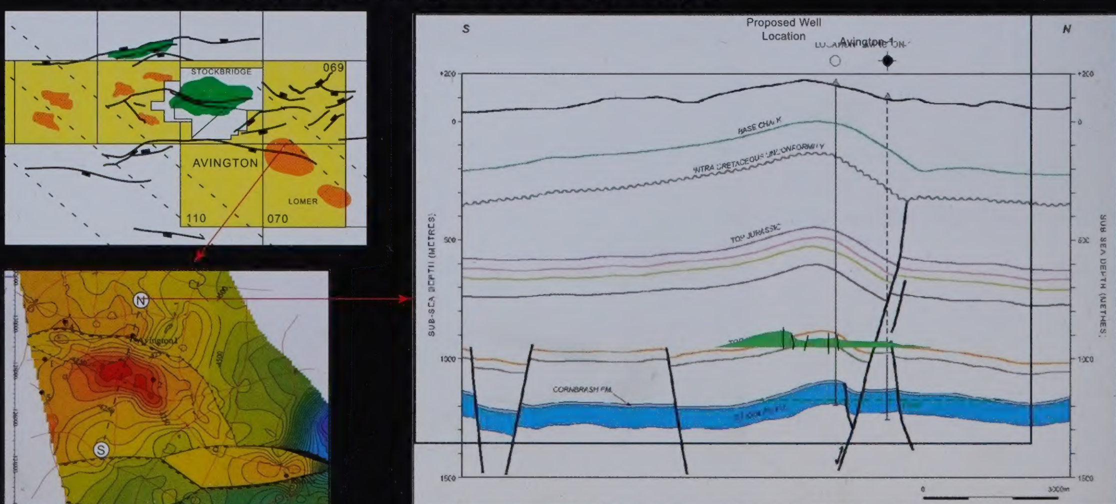
In addition to the significant potential in the Sherwood, several prospects have been identified in the shallower Jurassic reservoirs. The first of these to be pursued is likely to be the Waddock Cross prospect located in the eastern portion of license PL 090.

Sterling currently has an interest in three licenses in the western part of the Weald Basin PEDL's 070, 069 and 110 and is Operator of the latter two. The licenses cover 139,562 gross (42,411 net) acres and adjoin and surround the Stockbridge field, which produces from the Jurassic Great Oolite reservoir. Stockbridge is the largest of the Weald Basin fields and is operated by Pentex, who also operates the PEDL 070 license. Application of current well drilling and completion techniques in the Oolite has resulted in significantly improved well production rates and ultimate oil recovery.

The first of Sterling's Weald Basin prospects to be drilled will be the Avington prospect. A 1987 well drilled on the northern, footwall part of the structure had a 32-metre oil column based on log, core and show data as well as comparison with the neighbouring Stockbridge wells but was not tested. The well predates the more recent well performance trends from Stockbridge and more recent seismic detailing the potential of the southern portion of the structure. Planning approval to drill a well into the crest of the Avington structure was received in January 2003. Site preparation will be commenced and a drilling rig has been chosen which will start the well following its current programme for another company. Start date is estimated by the Operator to be mid 2003. The well will be drilled at high angle to enable ease of later

Weald Basin – PEDL 069, PEDL 070 & PEDL 110

Western Weald Prospects, Stockbridge Field and Avington Prospect



conversion to horizontal after initial testing. The close proximity to Stockbridge will allow the immediate trucking of any hydrocarbon produced on test.

During 2002, technical evaluation of license EXL 295 and the western portion of license PEDL 069 were completed. As a result of the evaluations, EXL 295 and the extreme western portion of PEDL 069 were relinquished. The evaluation indicated that the remainder of license PEDL 069 just to the west of Stockbridge contained several smaller prospects and this area has been retained. Further activity on PEDL 069 awaits the results of the Avington well.

In February 2002, Sterling was awarded the PEDL 110 license, which adjoins PEDL 070 and contains a possible extension of the Avington prospect.

Sterling's third area of operation in the UK is in the Cleveland Basin, in the north east of England within the counties of Yorkshire and Cleveland. Sterling holds interests in two licenses, PEDL 068 and PEDL 071, which cover 299,550 gross (169,016 net) acres. The main reservoirs in this region are the Permian Zechstein carbonates and Rotliegendes sandstone with secondary objectives in the underlying Carboniferous. These are the same formations that produce in the offshore. The Zechstein forms the main target within the more northerly PEDL 068 and the Rotliegendes in PEDL 071 to the south. Both reservoirs produce gas in the vicinity of the licenses and there are currently five gas fields in operation close by.

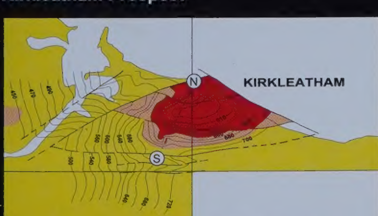
PEDL 068 will be the first of the Cleveland blocks to be drilled and planning applications have been submitted for two prospects – Kirkleatham and Westerdale. During 2002, planning activity was pursued and funded by Sterling's partner in exchange for a 10% working interest in PEDL 068.

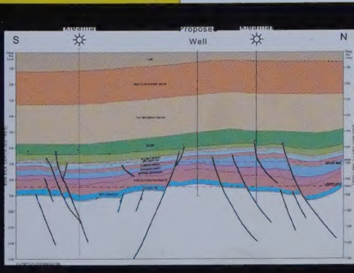
The Kirkleatham prospect was originally drilled in the 1940s and tested gas in two wells from open hole tests without stimulation. Based on more recent seismic over the prospect, the bottom hole location for the

PEDL 068 Zechstein carbonate reservoir

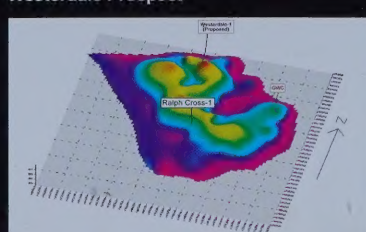
Up-dip potential from tested gas

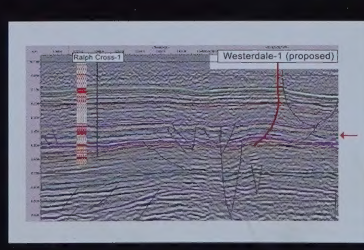
Kirkleatham Prospect





Westerdale Prospect





next Kirkleatham well has been selected up-dip from the two older wells in an area where increased faulting and fracturing is anticipated. In addition the basal Cadeby formation, which showed good productivity on test in the old wells, is mapped as being above the gas water contact at the proposed location. Production performance can be enhanced in these reservoirs by current drilling and completion techniques. The Kirkleatham prospect is located close to markets.

The second well planned for PEDL 068 will test the Westerdale prospect. This prospect was first drilled in 1966 when the well Ralph Cross encountered a 20-metre gas column. Subsequent tests recovered gas at commercial rates in excess of 3 million cubic feet of gas per day. The well was abandoned after increased water cut followed high-pressure stimulation. Seismic shot subsequent to the Ralph Cross well indicates the potential to move significantly up-dip from the original well. The location selected is designed to test the structural closure some 50 metres above the original well. The increased gas column, well design and intended completion practices will provide the possibility for optimum recovery and production rates.

Technical activity on license PEDL 071, identified a number of prospective structures within the Rotliegendes sandstone fairway. During the latter part of 2002, seismic reprocessing was initiated over two of the main prospects and the results will be available early in 2003 to allow decisions on further seismic acquisition and possible drilling.

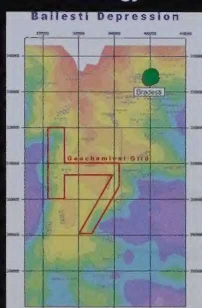
Romania

Sterling holds significant assets in Romania. These assets form the second main area of current activity. Romania, once the largest producer of oil and gas in Eastern Europe, has a 130-year history of commercial oil and gas production. Over 350 oil and gas structures have been discovered to date yielding cumulative oil production of 5 billion barrels. Activity languished under the 40-year Communist regime resulting in the country being under explored with modern technology. Estimated undiscovered reserves are large and

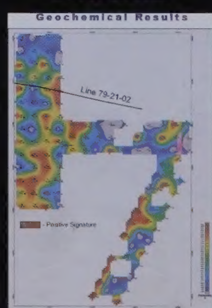
South Craiova

- Northern Focus Area

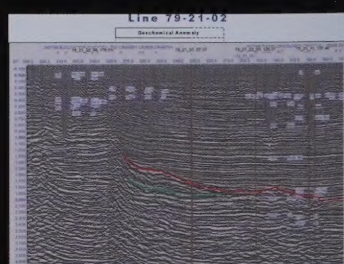
Geology



Geochemical



Seismic



given its declining production, the country is keen to encourage new exploration to meet internal demand and fill its extensive infrastructure networks. Romania has undertaken economic and market reforms since the end of Communism bringing pending NATO membership and consideration for EU membership.

Sterling's relatively early entry into the country enabled the securing of an enviable exploration position under contracts with attractive fiscal terms. Operational activities have progressed smoothly and relationships with Romanian technical and governmental bodies are well established.

Sterling has a 100% interest and operates the onshore Romania South Craiova Block. Awarded in August 2000, the block extends for 1,545,000 acres and is located in the southwest part of the country, to the south and west of Bucharest. The topography is fairly gentle, providing ease of access for operations.

The South Craiova concession lies between Romanian and Bulgarian producing fields, which are prevalent within the geological province known as the Moesian platform. There are more than 100 fields within the Romanian sector alone and several exceed 100 million barrels in size. The geological framework throughout the Moesian platform has all the ingredients for successful exploration and the area within South Craiova is no different. Play types are numerous, extending from the Triassic through to the Tertiary and nearby analogues exist for production in each play type.

Since acquiring the concession, Sterling has reprocessed 300 kilometres of existing seismic data and integrated this with the large volume of shallow well data and vintage analogue seismic to provide a detailed study over the eastern part of the block. The workstation-based end product was used to map the main structural elements at each of the key horizons. As a result, two main prospective areas were delineated, one in the north, close to the 100 million barrels of oil equivalent Bradesti and Malu Mare fields and the other in the south, just across the Danube river from Bulgarian fields. To aid in focusing new and more detailed seismic surveys, and in prioritising leads, geochemical sampling using the Gore-Sorber technique was completed and analysed during 2002. Gore-Sorber, a US firm, was chosen because of the success of its surveys world-wide, including other parts of Romania. Gore-Sorber analysed the results in the absence of knowledge of the subsurface data–providing an independent set of results. The survey results concluded, "the geochemical models delineated at least one large-size and several moderate size geochemical features". In terms of size, one of the northern area anomalies equates in size to the Bradesti field surface area.

Based on the geochemical results and the previous subsurface study, a seismic grid has been set out to detail the subsurface structure associated with the geochemical anomalies and select the first drilling locations. Given the larger anomaly size in the north and the close analogy to the known geology and nearby fields, the seismic programme will concentrate in the northern area.

The geochemical survey successfully completed the first exploration phase on South Craiova and based on the positive results obtained, Sterling elected to enter the second exploration phase.

Operations Review

Offshore Romania, Sterling has a 20% interest in a Production Sharing Contract covering 1,100,000 gross acres in two Blocks, Pelican X111 and Midia XV. Located to the east of the producing Lebada fields and close to the Pescarus, Cobalcescu and Olimpiyskiy discoveries the two blocks also have an existing gas discovery and several very large structures have been identified to date.

Following appraisal of the Doina discovery in the southern Midia Block in 2001, a study was undertaken that has indicated the technical feasibility for a development option under which Sterling's Doina gas discovery and Doina Sister prospect would be tied back to other companies nearby existing and planned gas production. The joint venture is also considering infill seismic on the large Midia SE prospect, which has enough possible gas to provide the Doina area with a stand-alone development.

In the northern Pelican Block, additional geological and geophysical studies were carried out around the Gasca prospect. The studies included data from the North Pelican area, which was acquired under a Prospecting License and enabled a regional and detailed prospect review considering the reported oil and gas discovery drilled by a Ukrainian company. The study has confirmed the technical merits of Gasca, which is now seen as a multi-play prospect with structures at several levels.

Denmark Onshore

Sterling acquired a 75% operating interest in License 2/01 in March 2001. The license, known as the Salling block is located in North Jutland in an area with salt features creating trapping potential on their flanks. Studies indicate that the Fjerritslev formation reaches maturity in the deep rim synclines which border the salt features. Based on existing seismic and a pilot geochemical survey, the initial review identified two main areas of focus down flank from the Skive structure.

All suitable available seismic was then reprocessed and a regular grid geochemical survey completed over the areas of interest. The additional work on the license did not have the desired result of maturing any of the leads into firm prospects and the group relinquished the area in January 2003.

Sterling holds a 20% working interest in License 1/01 located in South Jutland. This large 900,000-acre block was awarded in March 2001 and lies within the Zechstein trend which produces in Poland and Germany. A previous discovery exists on the block at Logumkloster and a number of wells in the license encountered significant shows within the Zechstein. The play concept is to evaluate the Zechstein "barrier edge" and "slope" regions for prospects analogous to the on trend production.

During 2002, the group reprocessed 1,500 kilometres of existing seismic, completed a pilot geochemical survey and initiated a full review of the area using the new information. The results of the study will be available in early 2003.

Operations Review

France Onshore

Sterling was formally awarded a 42.85% working interest in the St Laurent License in August 2002. The license covers some 294,000 acres and is located in the prolific Adour-Arzacq sub-basin of the Acquitaine area in Southern France. The Adour-Arzacq Basin has estimated discovered reserves of 13 trillion cubic feet of gas and 100 million barrels of oil. The license is 20 kilometres northwest of the giant Lacq Field and although covered by a significant database has not been subjected to recent exploration activity. In addition to a heavy oil discovery, located in the northeast part of the license, there are several hydrocarbon occurrences noted in older wells and surface seeps.

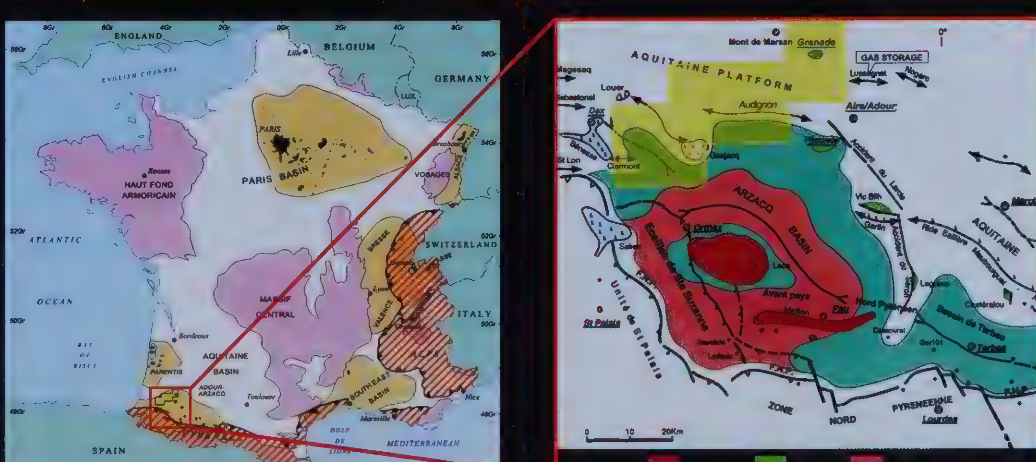
The area has a thick sequence of Mesozoic sediments and the presence of salt features together with the tectonic history of the area provide the structural framework for trapping. The Jurassic and Cretaceous sequences contain both shales and carbonates which are the main source rocks and reservoir intervals respectively. The Mesozoic sequence is believed to be prospective and will be the focus of seismic reprocessing activity.

Initially, activity will focus on the evaluation of the heavy oil discovery made by the Grenade Sur Adour – 1 well which was drilled in 1975. The well tested minor amounts of heavy oil (13-15 API) from Cretaceous carbonates. At a depth of 2,100 metres, the oil-bearing zone is 63 metres with an average permeability in excess of 100 millidarcies. The group has obtained the original oil samples and test data to further evaluate the zone of interest. The initial seismic to be reprocessed will focus on defining the stratigraphically trapped oil accumulation associated with the Grenade discovery.

Health, Safety and Environment

Sterling Resources is committed to operate safely in an environmentally sensitive manner and to safeguard the health and welfare of its employees, contractors, suppliers and the public, in every area of operation.

St Laurent License



Financial Statements

Management's Report

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting policies outlined in the notes to the consolidated financial statements. Other financial information appearing throughout the report is presented on a basis consistent with the consolidated financial statements.

Management maintains appropriate systems of internal controls. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the presentation of financial statements.

Ernst & Young LLP, an independent firm of Chartered Accountants, has been engaged, as approved by the shareholders, to examine the consolidated financial statements in accordance with auditing standards generally accepted in Canada and to provide an independent professional opinion.

The Audit Committee and the Board of Directors have reviewed the consolidated financial statements with management and with Ernst & Young LLP. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Robert G. Welty
Chairman & Chief Executive Officer

Sherry L. Cremer
Treasurer & Corporate Secretary

Auditors' Report

To the Shareholders of Sterling Resources Ltd.

We have audited the consolidated balance sheets of **Sterling Resources Ltd.** as at December 31, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Canada
February 28, 2003

Chartered Accountants

Consolidated Balance Sheets

(See Basis of Presentation – Note 1)

As at December 31

	2002 $	2001 $
ASSETS		
Current		
Cash and short term investments *[note 5]*	**284,674**	634,552
Accounts receivable and other	**49,075**	89,151
Due from officers *[note 6]*	**115,000**	125,000
	448,749	848,703
Due from officers [note 6]	**–**	115,000
Capital assets *[note 7]*		
Petroleum and natural gas properties and equipment	**8,398,166**	7,557,514
Furniture and fixtures	**24,746**	29,033
	8,422,912	7,586,547
	8,871,661	8,550,250
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**490,222**	270,692
Commitments *[note 10]*		
Shareholders' equity		
Share capital *[note 9]*	**12,382,568**	11,612,046
Contributed surplus	**66,479**	66,479
Deficit	**(4,067,608)**	(3,398,967)
	8,381,439	8,279,558
	8,871,661	8,550,250

See accompanying notes

On behalf of the Board:

Director

Director

Consolidated Statements of Operations and Deficit

For the years ended December 31

	2002 $	2001 $
EXPENSES		
General and administrative		
- corporate	**580,199**	562,208
- exploration project costs, including projects written off	**87,295**	149,583
Depreciation	**6,739**	7,508
	674,233	719,299
OTHER INCOME		
Interest	**5,592**	81,121
Net loss for the year *[note 8]*	**668,641**	638,178
Deficit, beginning of year	**3,398,967**	2,760,789
Deficit, end of year	**4,067,608**	3,398,967
Net loss per common share *[note 4]*		
Basic	**0.04**	0.04
Diluted	**0.04**	0.04

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31

	2002 $	2001 $
OPERATING ACTIVITIES		
Net loss for year	(668,641)	(638,178)
Items not affecting cash		
Capitalized project costs written off	29,747	–
Depreciation	6,739	7,508
Cash flow used in operations	(632,155)	(630,670)
Change in non-cash working capital	259,606	17,071
Cash used in operating activities	(372,549)	(613,599)
INVESTING ACTIVITIES		
Petroleum and natural gas properties and equipment additions	(870,399)	(2,348,537)
Furniture and fixture additions	(2,452)	(3,261)
Cash used in investing activities	(872,851)	(2,351,798)
FINANCING ACTIVITIES		
Issue of common shares, net of share issue costs	770,522	3,301,718
Decrease in due from officers	125,000	200,000
Cash provided by financing activities	895,522	3,501,718
Increase (decrease) in cash	(349,878)	536,321
Cash and short term investments, beginning of year	634,552	98,231
Cash and short term investments, end of year	284,674	634,552

See accompanying notes

Notes to Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Sterling Resources Ltd. (the "Company") is a publicly traded energy company engaged in the exploration, development and production of crude oil and natural gas in selected areas of the world.

Basis of presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which contemplates that the Company will continue its operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company has incurred significant operating losses and has a working capital deficiency of $41,473 as at December 31, 2002. The Company will need to raise additional capital or achieve profitable operations to continue in the normal course of business. The outcome of these matters cannot be predicted at this time.

The consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary if the Company is unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation and investments

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Sterling Resources (UK) Ltd. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements involves the use of estimates and approximations which have been made using careful judgment. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs relating to the acquisition of, exploration for and development of petroleum and natural gas properties and equipment are capitalized in cost centres on a country-by-country basis. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals, and costs of drilling and equipping productive and nonproductive wells.

All cost centres are in the pre-development stage and as such the costs in each centre are not subject to depletion. The recovery of the costs incurred to date is uncertain and is ultimately dependent upon discovering commercial quantities of hydrocarbons. The likelihood of such a discovery is not determinable at this time.

Furniture and fixtures are carried at cost less accumulated depreciation. Depreciation is calculated on a declining balance basis at an annual rate of 30%.

Joint operations

Substantially all of the Company's exploration activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

Foreign currency translation

Operations in foreign countries are translated using the temporal method, in which foreign currency denominated monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date, and non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses are included in the consolidated statement of operations.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability. Future income taxes are measured using income tax rates expected to apply in the years in which differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantially enacted.

Stock options

The Company has established a stock option plan whereby the Company may grant options to its directors, officers and employees for up to 1,700,000 common shares. The exercise price of each option equals the market price of the Company's shares on the date of the grant less any applicable discount approved by the Board of Directors and the TSX Venture Exchange. The option's maximum term is five years, with the minimum vesting period to be 18 months. The stock options vest over the initial three years.

Measurement uncertainty

The amounts recorded for depreciation of furniture and fixtures and the allowance for doubtful accounts are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of changes in such estimates in future periods could be material.

3. CHANGES IN ACCOUNTING POLICIES

Stock Based Compensation

Effective January 1, 2002, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") standard for reporting stock-based compensation. As permitted by the CICA 3870, the Company has applied this change prospectively for all new awards granted after January 1, 2002. The Company has chosen to follow the intrinsic value method of accounting for stock-based compensation in which no compensation expense is recognized when stock options with no cash settlement features are granted to employees and directors. However, under the intrinsic value method, pro forma disclosure is made of earnings or losses and the related per share amounts as if the fair value method had been used. Direct awards of stock to employees and directors, and stock and stock option awards granted to non-employees will be accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock are determined by the quoted market price of the Company's stock and the fair value of stock options are determined using the Black-Scholes option pricing model.

In periods prior to January 1, 2002, the Company recognized no compensation when stock or stock options were granted to employees and directors.

4. EARNINGS PER SHARE

The Company follows the treasury stock method for the computation of fully diluted per share amounts. Under this method, the diluted weighted average number of common shares is calculated assuming the proceeds from the exercise of dilutive securities are used to purchase common shares at the average market price. The effect of the options outstanding using the treasury method would not be dilutive for the years ended December 31, 2002 and 2001.

Net loss per share is calculated based on net loss as the numerator in the calculation and the weighted average number of shares issued and outstanding during the year ended December 31, 2002 of 15,965,879 (2001 – 14,289,979) as the denominator.

5. CASH AND SHORT TERM INVESTMENTS

Cash and short term investments include $185,000 (2001 – $415,000) of bankers' acceptances with maturities of less than 90 days, bearing interest at 2.15% (2001 – 1.57% and 1.66%).

Notes to Consolidated Financial Statements

6. RELATED PARTY TRANSACTIONS

During 1998, the Company loaned $225,000 to an officer of the Company for purposes of acquiring common shares in the Company. During 2000, the officer repaid $100,000 and in 2002, the balance of the loan was repaid.

During 1999, the Company loaned $315,000 to an officer of the Company for purposes of acquiring common shares in the Company. The loan is interest free and the principal sum is repayable in full on September 1, 2003. During the year ended December 31, 2002, $nil was repaid (2001 – $200,000).

Collateral for the outstanding note consists of the common shares purchased. The Company has no recourse against the party to the note if the Company's share price subsequently declines.

During the year ended December 31, 2001, the Company paid $48,000 in consulting fees to a company controlled by one of the directors of the Company. No such amounts were paid during the year ended December 31, 2002. These consulting fees have been recorded at their exchange amount and were in the normal course of operations.

7. CAPITAL ASSETS

(a) Petroleum and natural gas properties and equipment

	2002 $	2001 $
Romanian oil and gas properties	**4,969,380**	4,686,801
U.K. oil and gas properties	**2,924,215**	2,600,900
Other	**504,571**	269,813
	8,398,166	7,557,514

No general and administrative costs were capitalized in 2002 or 2001.

In order for the Company to maintain its working interests in its oil and gas properties in the pre-development stage, the Company has commitments to complete various seismic, geological, geophysical and other exploration work programs. The continuation of this work is dependent upon the ability of the Company to obtain continued financing and/or farm out any of its existing working interests.

(b) Furniture and fixtures

	2002 $	2001 $
Furniture and fixtures	**72,642**	70,190
Less accumulated depreciation	**(47,896)**	(41,157)
	24,746	29,033

8. INCOME TAXES

Income taxes differ from the amounts which would be obtained by applying the statutory income tax rate to the loss before income taxes as follows:

	2002 $	2001 $
Computed income taxes (recovery) at the statutory rate of 42.24% (2001 – 43.12%)	**(282,434)**	(275,182)
Tax rate differential on foreign operations	**42,347**	27,042
Tax benefit of losses not recognized	**240,087**	248,140
	–	–

At December 31, 2002, the Company has the following approximate balances available to be claimed against future income for tax purposes:

	$
Undepreciated capital cost	370,000
Canadian exploration expenditures	402,000
Canadian development expenditures	500,000
Canadian oil and gas property expenditures	269,000
United Kingdom deductible expenditures	4,270,000
Foreign exploration and development expenditures	3,040,000
Undeducted share issue costs	138,000

As well, as at December 31, 2002, the Company had the following approximate non-capital losses available to reduce future Canadian taxable income expiring as follows:

	$
2003	1,000
2004	402,000
2006	129,000
2007	770,000
2008	343,000
2009	1,075,000
Total	2,720,000

The Company also has subsidiary UK tax losses carried forward of approximately $1,049,000, which are not subject to expiry. The benefit of these losses has not been recognized in these financial statements.

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. As at December 31, 2002 and 2001, the Company has recognized a full valuation allowance against a future income tax asset arising from tax pools in excess of the net book value of capital assets, share issue costs and non-capital losses as follows:

	2002	2001
	$	$
Tax pools in excess of net book value of capital assets	**114,096**	346,524
Share issue costs	**58,978**	40,880
Domestic and foreign non-capital losses	**1,522,951**	1,007,014
	1,696,025	1,394,418
Less valuation allowance	**(1,696,025)**	(1,394,418)
Future tax asset	**–**	–

Notes to Consolidated Financial Statements

9. SHARE CAPITAL

a) Authorized

Unlimited common shares without nominal or par value

b) Issued

	Number of Shares	Amount $
Common shares		
Balance, December 31, 2000	9,212,336	8,310,328
Issued for cash	5,592,964	3,355,580
Exercise of stock options	176,667	74,800
Share issue costs	–	(128,662)
Balance, December 31, 2001	14,981,967	11,612,046
Issued for cash	**1,694,000**	**847,000**
Share issue costs	**–**	**(76,478)**
Balance, December 31, 2002	**16,675,967**	**12,382,568**

c) Stock Options

The Company has issued stock options to acquire common stock through its stock option plan. The following is a continuity of these stock options for which shares have been reserved:

	2002		2001	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Opening balance	**932,500**	**$ 0.59**	659,167	$ 0.54
Granted	**350,000**	**$ 0.36**	460,000	$ 0.60
Exercised	**–**	**–**	(176,667)	$ (0.42)
Cancelled/Expired	**(275,000)**	**$ (0.75)**	(10,000)	$ (0.56)
Ending balance	**1,007,500**	**$ 0.47**	932,500	$ 0.59

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2002:

Exercise Price	Number Outstanding December 31, 2002	Expiry Date	Number Exercisable December 31, 2002
$0.40	7,500	January 12, 2004	7,500
$0.45	150,000	August 1, 2004	150,000
$0.375	150,000	November 17, 2004	150,000
$0.60	380,000	January 23, 2006	126,668
$0.37	290,000	February 5, 2007	–
$0.30	30,000	October 10, 2007	–
	1,007,500		434,168

Notes to Consolidated Financial Statements

As the Company is following the intrinsic value method of accounting for employee options, no compensation expense has been recorded for the year with respect to employee options. The following table provides pro forma measures of net loss and net loss per share, had compensation expense been recognized based on the estimated fair value of the employee options on the grant date in accordance with the fair value method of accounting for stock-based compensation. As the accounting policy has been applied prospectively, disclosure for awards granted prior to January 1, 2002 has been omitted.

	Year Ended December 31, 2002 $
Reported net loss	668,641
Compensation expense	11,971
Pro forma net loss	680,612
Reported basic and diluted net loss per share	0.04
Pro forma basic and diluted net loss per share	0.04

The estimated fair value of stock options issued during the year was determined using Black-Scholes model using the following weighted average assumptions, resulting in a weighted average fair value of $0.11 per option. As the policy has been applied prospectively, comparative information has not been provided.

	2002
Risk-free interest rate	3.55%
Expected hold period to exercise	3 years
Volatility in the price of the Company's shares	59.60%
Dividend yield	0%

d) Warrants

In connection with a private placement on July 31, 2002, 1,694,000 warrants were issued, which give the holder the right to acquire one common share at $0.60 per common share, exercisable at anytime within 24 months. Pursuant to private placements on January 17, 2001 and January 26, 2001, 2,037,184 warrants were issued, which give the holder the right to acquire one common share at $0.75 per common share. In addition, 103,956 warrants at a price of $0.90 per common share were issued via the January 26, 2001 private placement. All warrants are exercisable at any time within 24 months (see note 13) from the date of issue. No value has been ascribed to these warrants in these financial statements. As at December 31, 2002 all warrants remain outstanding.

10. COMMITMENTS

The Company is committed to an operating lease for office premises and storage facilities with remaining payments of $36,515 in 2003 and $21,300 in 2004, the year the leases expire.

The Company has issued an irrevocable letter of guarantee to the National Agency for Mineral Resources ("NAMR") in Romania totaling $800,000 USD on behalf of its wholly owned subsidiary, Sterling Resources (UK) Ltd. This amount represents the subsidiary's total anticipated Phase 2 costs of an exploration program pursuant to a concession agreement between the subsidiary and the NAMR. The term of this second phase extends from August 25, 2002 to February 26, 2004 and costs must be incurred during this time period.

11. FINANCIAL INSTRUMENTS

The fair market values of the Company's financial instruments, including cash and short term investments, accounts receivable, and accounts payable approximate their carrying values.

12. SEGMENTED INFORMATION

The Company's activities are conducted in four geographic segments: Canada, the United Kingdom, Romania and other international locations which include operations in France and Denmark.

December 31, 2002	Other International $	Romania $	United Kingdom $	Canada and Corporate $	Total $
Expenses	–	–	347,056	327,177	674,233
Other income	–	–	1,083	4,509	5,592
Net loss	–	–	345,973	322,668	668,641
Capital expenditures	264,506	282,576	323,647	2,122	872,851
Total assets	504,571	4,976,808	3,008,225	382,057	8,871,661

December 31, 2001	Other International $	Romania $	United Kingdom $	Canada and Corporate $	Total $
Expenses	–	–	208,597	510,702	719,299
Other income	–	–	2,481	78,640	81,121
Net loss	–	–	206,116	432,062	638,178
Capital expenditures	135,489	1,534,739	680,152	1,418	2,351,798
Total assets	269,813	4,690,859	2,840,633	748,945	8,550,250

13. SUBSEQUENT EVENTS

In January 2003, the Company applied to and received conditional approval from the TSX Venture Exchange for an extension of the terms for 2,037,184 warrants issued in 2001. The warrants are currently reserved at an exercise price of $0.75 per common share. The expiry date for the exercise of the common share purchase warrants scheduled to expire January 17, 2003 and January 26, 2003 will be extended to July 17, 2003 and July 26, 2003 respectively.

Corporate Information

Directors

Raj K. Agrawal [1]
President
NRG Engineering Ltd.

Robert C. H. Cook [1]
Senior Investment Analyst
ARC Financial Corporation

Stewart G. Gibson
President & Chief Operating Officer
Sterling Resources Ltd.
Managing Director
Sterling Resources (UK) Ltd.

J. Richard Harris [1][2]
Independent Businessman

Robert G. Welty
Chairman & Chief Executive Officer
Sterling Resources Ltd.

[1] Audit Committee
[2] Chairman Audit Committee

Officers

Robert G. Welty
Chairman & Chief Executive Officer

Stewart G. Gibson
President & Chief Operating Officer

Sherry L. Cremer
Treasurer & Corporate Secretary

Corporate Headquarters

Sterling Resources Ltd.
Suite 1450, 736 Sixth Avenue S.W.
Calgary, Alberta, Canada T2P 3T7

Telephone: (403) 237-9256
Facsimile: (403) 215-9279

E-Mail: info@sterling-resources.com
Website: www.sterling-resources.com

Auditors

Ernst & Young LLP

Banker

The Royal Bank of Canada

Legal Counsel

Stikeman Elliott

Registrar and Transfer Agent

Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:

Computershare Trust Company of Canada
Suite 600, 530 Eighth Avenue S.W.
Calgary, Alberta, Canada T2P 3S8
Attn: Stock Transfer Department
Telephone: (403) 267-6800
E-Mail: caregistryinfo@computershare.com

Stock Exchange Listing

The TSX Venture Exchange Trading Symbol: SLG

Sterling Resources (UK) Ltd.

(wholly owned)

Directors

Stewart G. Gibson
Aboyne, Scotland

David Miller
London, United Kingdom

Robert G. Welty
Calgary, Canada

Officers

Robert G. Welty
Chairman

Stewart G. Gibson
Managing Director

Walter R. Roberts
Corporate Secretary

United Kingdom Office

Inneshewen House
Dess
Aboyne
Aberdeenshire
Scotland AB34 5BH
Telephone: 44-13398-84285
Facsimile: 44-13398-84092

Banker

Bank of Scotland

STERLING RESOURCES LTD.

Suite 1450, 736 Sixth Avenue S.W., Calgary, Alberta, Canada T2P 3T7 www.sterling-resources.com